

## Message Text

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ACTION EA-12

INFO OCT-01 NEA-11 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 DODE-00 PM-05 H-01 L-03 PA-01 /112 W

-----104661 301011Z /14

P R 300845Z JUN 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 2019

INFO AMEMBASSY BANGKOK

AMEMBASSY DACCA

AMEMBASSY CANBERRA

AMEMBASSY COLOMBO

AMEMBASSY ISLAMABAD

AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

AMEMBASSY PORT MORESBY

AMEMBASSY RANGOON

AMEMBASSY SINGAPORE

AMEMBASSY SUVA

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY VIENTIANE

AMEMBASSY WELLINGTON

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MANILA FOR USADB

E.O. 11652: N/A

TAGS: EGEN, ETRD, BEXP, BENC, KS

SUBJECT: U.S. PROCURMENT FROM ASIAN DEVELOPMENT BANK

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REF: A) STATE 155300; B) STATE 159654; C) SEOUL 5078 (NOTAL);

D) SEOUL 5278 (NOTAL); E) SEOUL 2024 (NOTAL); F) SEOUL 2345

(NOTAL); G) SEOUL 3390

SUMMARY: REFTTEL A) REQUESTS INFORMATION AND COMMENT ON  
IMPROVING THE RATE OF U.S. SALES CONNECTED WITH ADB FINANCED

PROJECTS. EMBASSY PERCEIVES JAPANESE COMMERCIAL DOMINANCE AND PROXIMITY TO KOREA (AND DUMPING PRICES) AS WELL AS INADEQUATE SENSITIVITY AND EFFORT BY U.S. FIRMS TO EXPLOIT ADB FUNDED PROCUREMENT AS PRINCIPAL PROBLEMS. SUGGESTIONS ON REMEDIES ARE ANALOGOUS TO THOSE RECENTLY OFFERED TO INTER-AGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY. END SUMMARY.

1. DEPARTMENT'S OBSERVATION THAT U.S. CONSULTING ENGINEERS ARE VERY COMPETITIVE IN SELLING SERVICES ON ADB PROJECTS IS BORNE OUT BY KOREAN EXPERIENCE. OF THE NINE MOST RECENT ADB LOAN PROJECTS SINCE 1974 WHICH REQUIRED ENGINEERING SERVICES, FOUR WERE PROVIDED BY U.S. FIRMS, TWO WERE BY JAPANESE AND ONE EACH WERE BY KOREAN, UK AND GERMAN FIRMS. DATES OF INITIAL EMBASSY ALERT REPORTS ON THOSE PROJECTS RANGED BETWEEN FOUR MONTHS TO ONE YEAR AND TEN MONTHS IN ADVANCE OF THE LOAN APPROVAL DATES. BOTH HEADQUARTERS AND REGIONAL OFFICES OF MAJOR U.S. ENGINEERING FIRMS SCHEDULE PERIODIC VISITS AND MAINTAIN CLOSE CABLE AND TELEPHONE CONTACT WITH US CONCERNING PROJECTS IN KOREA AS WELL AS ROK OVERSEAS CONSTRUCTION ACTIVITIES. ALL SUCH FIRMS TAKE ADVANTAGE OF COMMERCE MECPD SERVICES.

2. ADB LOANS PROCUREMENT HAS BEEN HANDLED THROUGH THREE PRINCIPAL CHANNELS, THE OFFICE OF SUPPLY REPUBLIC OF KOREA (OSROK), THE KOREA DEVELOPMENT BANK (KDB) AND THE MEDIUM INDUSTRY BANK (MIB). THE TWO BANKS HAVE RECEIVED ADB FUNDS FOR RELENDING IN A MANNER LIMITED OFFICIAL USE

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SIMILAR TO U.S. EXIMBANK'S C.F.F. PROGRAM WITH THE KOREA EXCHANGE BANK (KEB).

3. OSROK OFFICIALS NOTE THAT IN 1977 THEY PURCHASED \$10.6 MILLION WITH ADB FUNDS OF WHICH THEY ESTIMATE 18 PERCENT (\$1.89 MILLION) WAS FROM U.S. SUPPLIERS. THE SAME FIGURES FOR IBRD LOANS WERE \$33.9 MILLION OF WHICH 25 PERCENT (\$8.47 MILLION) WAS FROM U.S. SUPPLIERS. ADB OFFICIALS WERE ABLE TO PROVIDE FIRM FIGURES FOR 1976 OF \$30 MILLION IN ADB RELENDING OF WHICH 6 PERCENT (\$1.8 MILLION) WAS USED FOR IMPORTS FROM THE U.S. KDB'S \$60 MILLION IN IBRD FUNDS YIELDED 11 PERCENT (\$6.6 MILLION) IN PURCHASES FROM THE U.S. MIB ESTIMATES THAT "LESS THAN 10 PERCENT" (BELOW \$3 MILLION) OF ITS \$30 MILLION LENDING OF ADB FUNDS IN 1977 WAS USED FOR U.S. PURCHASES, COMPARED TO "LESS THAN 20 PERCENT" (BELOW \$6 MILLION) OF THE SAME AMOUNT OF 1976 IBRD FUNDS.

4. DEFINITE PATTERNS ATTEND THE PROCUREMENT OF THE THREE INSTITUTIONS. OSROK TENDERS ARE AVAILABLE IN KOREA AND IN THE U.S. WHERE INTERESTED FIRMS CAN HAVE FROM 30 TO 40 DAYS TO PREPARE BIDS. HENCE, THE PROPORTION OF OSROK'S ADB PURCHASING FROM THE U.S. IS HIGHER THAN THE OVERALL ADB AVERAGE.

KDB FUNDING OF IMPORTS IS GENERALLY THROUGH MEDIUM TO LARGE  
ROK FIRMS WHICH PRESUMABLY ARE INFORMED ON THE PRICES AND  
SPECIFICATIONS OF FOREIGN EQUIPMENT AVAILABLE TO THEM. HOWEVER,  
PROXIMITY TO JAPAN AND THE THOROUGH PROMOTIONAL EFFORTS OF THE  
LARGE JAPANESE TRADING FIRMS REPRESENTED HERE HAVE ESTABLISHED  
STRONG PROCLIVITY TOWARD JAPANESE SOURCING OF CAPITAL EQUIPMENT  
IMPORTS. RECENT ROKG PROGRAMS TO DIVERSIFY IMPORTS TOWARD  
THE U.S. AND EUROPE CAN BE EXPECTED TO ERODE JAPAN'S STRONG  
POSITION IN THIS MARKET. MIB CLIENTS ARE SMALL FIRMS WHICH  
TEND TO BE FAMILIAR ONLY WITH JAPANESE MACHINERY AND WHICH  
BASE EQUIPMENT PURCHASE DECISIONS ON PRICE, PROMPT DELIVERY  
AND RAPID ACCESS TO SPARE PARTS. FREQUENTLY DECISION MAKERS  
IN SUCH FIRMS SPEAK JAPANESE (BUT NO ENGLISH) AND FEEL AT  
EASE WITH PROMOTIONAL LITERATURE AND EQUIPMENT MANUALS WRITTEN  
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IN JAPANESE.

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MANILA FOR USADB

5. IMPORTANT ELEMENT IN CHOICE OF SOURCES WHICH IS A MATTER OF CONCERN IS JAPANESE "ONE-SHOT" DUMPING. REF. (D) CONTAINS REFERENCE TO A JAPANESE BID OF \$12 MILLION ON TURBINE GENERATORS  
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ON WHICH THE NEXT LOWEST BIDDER, A U.S. FIRM, QUOTES \$22 MILLION AND FOR WHICH THE MANUFACTURING COSTS IN JAPAN WOULD BE AT LEAST \$12 MILLION. IN A RECENT OSROK BID FOR TEN DONKEY MINING LOCOMOTIVES TO BE FUNDED FROM ADB'S COA DEVELOPMENT LOAN, U.S. BID WAS SECOND BEST AT ABOUT \$1.2 MILLION, WHILE A JAPANESE FIRM TOOK IT WITH AN OFFER OF \$500,000. THE ROK AND ROC ALSO ARE TROUBLED BY SUCH ACTIVITIES. LAST YEAR A BID WAS WON BY A JAPANESE FIRM WHICH QUOTED \$12 MILLION TO THE PORTLAND, OREGON PORT AUTHORITY FOR A FLOATING DOCK (ANOTHER JAPANESE BID WAS \$22 MILLION) WHICH EFFICIENT KOREAN AND CHINESE PRODUCERS COULD NOT OFFER FOR LESS THAN \$23 MILLION. THERE APPEARS TO BE NO REMEDY TO THIS LATTER PROBLEM EXCEPT RECOVERY OF JAPANESE INDUSTRY TO THE POINT WHERE DUMPING BECOMES UNREASONABLE.

6. OTHER ELEMENTS ENTER INTO SOURCING CHOICES, FOR EXAMPLE REFTEL (E) AND (F) REPORT AN INSTANCE OF JAPANESE "LOW-BALLING" AND AN INSTANCE OF ADB STAFF INFLUENCE ON SELECTION OF FIRMS TO BE SHORT-LISTED. BOTH PROJECTS WERE SUCCESSFULLY CAPTURED FOR U.S. FIRMS BY EMBASSY INTERVENTION. ALTHOUGH NOT REPEAT NOT ALL OF THE FOREGOING ILLUSTRATIONS ARE RELATED TO ADB SOURCED PROCUREMENT, THEY ARE ALL TOO COMMON EXAMPLES OF THE SHARP PRACTICES THAT HAVE COME TO OUR ATTENTION.

7. EMBASSY RECOMMENDATIONS, WHICH WE WOULD SUGGEST FOR CCP, (REFTEL B), FOR LOCAL AND WASHDC ACTION FOR IMPROVING PROCUREMENT OPPORTUNITIES FOR U.S. FIRMS, DO NOT REPEAT NOT DRAMATICALLY DEPART FROM ONGOING PROGRAMS:

(A) EXPORT CONSCIOUSNESS OF U.S. INDUSTRY IS HISTORICALLY LOW.  
REFTEL G) RESPONDS TO INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY WITH SUGGESTIONS ON MEASURES TO DEAL

WITH THAT PROBLEM. IT IS CLEAR THAT IF U.S. CONSULTANTS AND  
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ENGINEERS CAN SUCCESSFULLY IDENTIFY AND PURSUE ADB PROJECTS  
ON THE BASIS OF OUR EARLY WARNINGS, THEN INTERESTED EQUIPMENT  
VENDORS CAN DO THE SAME. IT MAY BE THAT THE EXCELLENT INFORMA-  
TION SYSTEM OF MEPD SHOULD BE BROADENED TO INCLUDE MAJOR  
EQUIPMENT SUPPLIERS AS WELL AS ENGINEERING USERS. OSROK  
DISTRIBUTION IN THE U.S. OF ITS INVITATIONS TO BID FACILITIES  
THE ABILITY OF INTERESTED U.S. VENDORS TO PARTICIPATE IN THAT  
PORTION OF ADB GENERATED PROCUREMENT.

(B) WITH REGARD TO PROCUREMENT VIA KDB/MIB RELENDING PROGRAMS,  
THE ACTIVITIES OF U.S. TRADE CENTER, SEOUL, IN INTRODUCING  
NEW-TO-MARKET FIRMS THROUGH SHOWS, INCLUDING OUR TRAVELING  
CATALOGUE SHOWS, CAN BROADEN KOREAN KNOWLEDGE AND INTEREST  
IN U.S. EQUIPMENT. WE EXPECT TO BE AIDED IN THAT EFFORT BY  
STRONG ROKG EFFORTS TO REMEDY LARGE TRADE DEFICITS WITH JAPAN  
BY DIRECTING PURCHASING TOWARD THE U.S. AND EUROPE. NEITHER  
EMBASSY NOR KDB/MIB COULD PERCEIVE A PRACTICAL MEANS OF  
IDENTIFYING WHICH OF THOUSANDS OF ROK FIRMS MAY INTEND  
APPLY FOR SMALLER SCALE RELENDING FUNDS FOR CAPITAL EQUIPMENT  
IMPORTS. IN PRACTICE, APPLICANTS HAVE MADE THEIR CHOICES

BEFORE THEY APPLY FOR LOANS. IN THAT PROCESS OF IMPORT SELEC-  
TION, KOREAN FIRMS OFTEN DISCOVER THAT U.S. FIRMS ARE NOT  
INTERESTED IN EXPORTING THE EQUIPMENT THEY DESIRE, SO THEY  
TURN TO JAPAN WHERE QUICKER DELIVERY AND SPARE PARTS SHIPMENTS  
CAN BE OBTAINED, RATHER THAN TO EUROPE. IN PRINCIPLE  
THE SMALLER THE APPLICANT FIRMS, THE MORE LIKELY THEIR MACHINERY  
IMPORTS HAVE BEEN FROM JAPAN.  
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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** SALES, DEVELOPMENT BANKS, PROGRAMS (PROJECTS)  
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**Copy:** SINGLE  
**Draft Date:** 30 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
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**Executive Order:** N/A  
**Errors:** N/A  
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**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
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**TAGS:** EGEN, ETRD, BEXP, BENC, KS, US, ADB  
**To:** STATE  
**Type:** TE  
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